



Legislative Audit Division

State of Montana

Report to the Legislature

December 2002

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2002

State Auditor's Office

This report contains four re commendations to the office related to recording financial information on the state's accounting records in compliance with state law and policy.

**Direct comments/inquiries to:
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02-18

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

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John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

December 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the State Auditor's Office for the two fiscal years ended June 30, 2002. Included in this report are recommendations concerning recording financial information on the state's accounting records in compliance with state law and policy. The office's written response to the audit recommendations is included in the audit report beginning on page B-3.

We thank the State Auditor and his staff for their assistance and cooperation during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

State Auditor's Office

Members of the audit staff involved in this audit were Jason Gilliam, Alexa O'Dell, Lorry Parriman, and Jennifer Solem.

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Elected and Administrative Officials

State Auditor's Office

John Morrison, State Auditor

Jill Gerdrum, Deputy State Auditor

Brenda Elias, Deputy Securities Commissioner

Angela Caruso, Deputy Insurance Commissioner

John Huth, Central Services Administrator

For additional information concerning the State Auditor's Office,
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State Auditor's Office

This report contains the results of our financial-compliance audit of the State Auditor's Office for the two fiscal years ended June 30, 2002. The previous audit report contained six recommendations to the office.

This report contains four recommendations directed to the office and an unqualified opinion on the office's financial schedules. This means the reader may rely on the financial information and supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the office:

- A. Seek legislation to clarify sections 33-2-708 and 17-2-121, MCA, to ensure revenues are recorded in the proper fund.
- B. Comply with state law requiring annual reserve liability valuation.
- C. If necessary, seek legislation to change the annual reserve liability requirement.6

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the office:

- A. Adjust its internal database to ensure fees are deposited into the proper fund as required by law.
- B. If necessary, seek legislation to change the fund where fees are deposited.7

Agency Response: Concur. See page B-4.

Report Summary

Recommendation #3

We recommend the office properly record additions, reductions, and ending balances of security deposits on the accounting records.....8

Agency Response: Concur. See page B-4.

Recommendation #4

We recommend the office record all revenues and expenditures related to the stamping fee established in section 33-2-321(5), MCA, on the state's accounting records.....9

Agency Response: Concur. See page B-4.

Introduction

General

We performed a financial-compliance audit of the State Auditor's Office (office) for fiscal years 2000-01 and 2001-02. The objectives of our audit were to:

1. Determine if the office complied with applicable laws and regulations.
2. Make recommendations for improvement in management and internal controls and financial operations.
3. Determine if the office's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2002.
4. Determine the implementation status of prior audit recommendations.

This report contains four recommendations to the office. Other areas of concern deemed not to have a significant impact on the successful operations of the programs within the State Auditor's Office are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations.

Office Background and Organization

The State Auditor's Office was established by Article VI, Section 1 of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Insurance and the ex-officio Commissioner of Securities. The State Auditor licenses and regulates insurance companies and agents within the state, and regulates and registers securities dealers. The State Auditor also serves as a member of the State Land Board and the Crop Hail Insurance Board. Total full-time equivalent (FTE) positions of the office are 69.5. The office currently has 12.5 exempt positions.

The office is organized as follows:

1. The Central Management Division is responsible for the administrative, budgeting, personnel, and accounting functions of

Introduction

the office. The division also provides the State Auditor support as he fulfills his duties on the State Land Board and the Crop Hail Insurance Board. (10 FTE)

2. The Insurance Division regulates the insurance industry in Montana. Its duties include resolving insurance consumer inquiries and complaints involving agents, coverage, and companies; licensing and reviewing the market and financial condition of insurance companies; collecting the insurance premium tax; reviewing rates and reviewing and approving forms used by insurance companies; licensing, testing, and administering a continuing education program for all agents seeking to conduct insurance business in the state; and investigating insurance code and rule violations. (47.5 FTE)
3. The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana. The division is responsible for the registration of securities issuers, salespeople, investment advisers, broker-dealers, and investment adviser representatives. Additionally, it investigates instances of unregistered or fraudulent securities transactions. (12 FTE)

The office is responsible for distributing a portion of insurance premium taxes to the Montana Public Employees' Retirement Agency and to fire and police departments in qualifying Montana cities and towns. The office also distributes federal forest reserve moneys to Montana counties.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the prior financial-compliance audit of the office for the two fiscal years ended June 30, 2000. The report contained six recommendations to the office.

During the current audit, we determined the office implemented three of the recommendations, partially implemented two recommendations, and did not implement one recommendation. The two recommendations which were partially implemented deal with recording the proper amount for additions and reductions to property held in trust (page 7) and recording fees in the correct fund (page 6). The recommendation not implemented deals with a stamping fee not recorded on the state's accounting records (page 8).

Findings and Recommendations

Compliance With State Law

Conflicting Laws

The office collects moneys for various fines, penalties, premium taxes, and license, renewal, exam and copy fees. State laws dictate the fund type to deposit these collections.

Section 33-2-708, MCA, requires all fees not specifically mentioned in the law, but collected by the commissioner pursuant to Title 33 be deposited in the State Special Revenue Fund. Section 17-2-121, MCA, requires all fees, miscellaneous and examination charges, fines, and penalties, except those provided in section 33-2-708, be deposited in the General Fund. Since all fees are not specifically mentioned in section 33-2-708, MCA, some fees can either be recorded in the General Fund or the Special Revenue Fund. As a result, the office is unable to comply with both laws.

Office personnel stated that section 33-2-708, MCA, was revised in both the 1999 and 2001 sessions. The revisions directed the fees to be deposited to the credit of the State Special Revenue Fund. Previously, fees were recorded to the General Fund. Corresponding fund changes were never made to section 17-2-121, MCA. The office should seek legislation to clarify the laws to ensure revenues are reported in the proper fund.

Reserve Liability Valuations

The office issues licenses to allow insurance companies to transact business within the state of Montana. In addition to issuing licenses, section 33-2-521, MCA, requires the office to annually value the reserve liabilities for all outstanding life insurance policies and annuity and endowment contracts of every life insurer doing business in this state. According to section 33-1-401, MCA, the office is also required to examine the affairs, transactions, accounts, records, and assets of each authorized insurer. This examination must be done at least every five years.

The office does complete examinations on each authorized insurer at least every five years, but did no annual reserve liability valuation

Findings and Recommendations

during the audit period. Office personnel stated they do not have the resources or personnel needed to annually value the reserve liabilities. Additionally, they believe it is inefficient to do so, when every authorized insurer is fully reviewed at least once in a five-year period.

Recommendation #1

We recommend the office:

- A. Seek legislation to clarify sections 33-2-708 and 17-2-121, MCA, to ensure revenues are recorded in the proper fund.**
- B. Comply with state law requiring annual reserve liability valuation.**
- C. If necessary, seek legislation to change the annual reserve liability requirement.**

Recording Revenues in the Proper Fund

On January 1, 2000, an amendment to section 33-2-708, MCA, became effective which simplified the fee structure for insurance companies doing business in Montana. The amendment directed the new fees be deposited to the credit of the State Special Revenue Fund. Prior to this, the fees from insurance companies were deposited in the General Fund.

The prior audit report noted the office's internal database did not get updated for this law change and caused the revenues to be deposited into the wrong fund. The fees collected from rating organizations, consultant licenses, health service corporations, and health maintenance organizations were included in revenue codes in the internal database that were directed for deposit in the State Special Revenue Fund. Various state laws, which were not updated when section 33-2-708, MCA, was amended, specifically address these fees and state they should be deposited in the General Fund. The total amount of these fees were \$2,450 and \$2,200 in fiscal year 2000-01 and 2001-02, respectively.

Findings and Recommendations

During our current audit, we noted all but one of these fees was still being recorded in the State Special Revenue Fund. Office personnel stated they believe the proper fund was used based on the nature of the fees collected and that they plan to seek legislation to amend the laws.

Recommendation #2

We recommend the office:

- A. Adjust its internal database to ensure fees are deposited into the proper fund as required by law.**
- B. If necessary, seek legislation to change the fund where fees are deposited.**

Insurance Securities Deposits

Section 33-2-111, MCA, requires an insurer intending to sell insurance in the state of Montana to maintain in trust through the Commissioner of Insurance a deposit of cash or authorized securities. The prior two audit reports included recommendations relating to the proper recording of these security deposits.

During our review of the fiscal year 2000-01 spreadsheet used to evaluate the securities, we noted it properly calculated the additions and reductions between June 30, 2000 and June 30, 2001. However, in fiscal year 2001-02, the office erroneously used the difference between two years; the June 30, 2000 and the June 30, 2002 balances, to determine and record the additions and reductions. The office should have used the difference of one year; June 30, 2001 to June 30, 2002. As a result, additions to property held in trust are overstated by \$805,075, reductions in property held in trust are overstated by \$621,744 and the ending property held in trust balance in the agency fund is overstated by \$183,331.

Office personnel stated they were aware they should use the previous fiscal year's ending balance; however, through human error, the fiscal year 2001-02 spreadsheet did not get properly updated for the June 30, 2001 valuations.

Findings and Recommendations

Recommendation #3

We recommend the office properly record additions, reductions, and ending balances of security deposits on the accounting records.

Stamping Fee

Section 33-2-321(5), MCA, notes a “stamping fee” not to exceed one percent of the premiums payable for surplus lines insurance transacted in the state of Montana may be collected by a surplus lines advisory organization (organization). The organization, the Montana Surplus Lines Agents Association, Inc., collects the fee to pay its expenses as noted in the statute. Furthermore, it notes the commissioner of insurance shall establish the stamping fee by rule.

During our previous audit, we reviewed applicable rules, statutes, and the by-laws of the organization. Based on this documentation and generally accepted accounting principles, we determined the State Auditor’s Office has control over the stamping fee and related activities and the office should record it on the state’s accounting records.

Review of premiums written in the state of Montana for surplus lines insurance shows approximately \$96,525 and \$138,788 of revenue and expenditure activity related to the stamping fee was not recorded on the state’s accounting records at the State Auditor’s Office in fiscal years 2000-01 and 2001-02, respectively.

Office personnel proposed changes to the state law during the 2001 Legislative Session they believed alleviated its responsibility to record the activity on the state’s accounting records. Although, regardless of who collects the fee, the fee is required by law, as referenced in rule, and should be recorded on the state’s accounting system.

Findings and Recommendations

Recommendation #4

We recommend the office record all revenues and expenditures related to the stamping fee established in section 33-2-321(5), MCA, on the state's accounting records.

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the State Auditor's Office for each of the fiscal years ended June 30, 2001 and 2002. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the State Auditor's Office for each of the fiscal years ended June 30, 2001 and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

September 18, 2002

STATE AUDITOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2001	\$ (2,470,312)	\$ 2,108,134	\$ 0
PROPERTY HELD IN TRUST: July 1, 2001			\$ 12,159,563
ADDITIONS			
Budgeted Revenues & Transfers-In	52,421,789	19,743,865	
NonBudgeted Revenues & Transfers-In	2,743,620	22,008	
Prior Year Revenues & Transfers-In Adjustments	(166,880)	(1,250)	
Direct Entries to Fund Balance	(50,337,001)		
Additions to Property Held in Trust			1,063,817
Total Additions	4,661,528	19,764,623	1,063,817
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	14,549,073	16,794,415	
NonBudgeted Expenditures & Transfers-Out		2,760,609	
Prior Year Expenditures & Transfers-Out Adjustments	501	14,149	
Reductions in Property Held in Trust			1,369,825
Total Reductions	14,549,574	19,569,173	1,369,825
FUND BALANCE: June 30, 2002	\$ (12,358,358)	\$ 2,303,584	\$ 0
PROPERTY HELD IN TRUST: June 30, 2002			\$ 11,853,555

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2000	\$ <u>(2,379,499)</u>	\$ <u>1,347,491</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2000			\$ <u>11,976,232</u>
 ADDITIONS			
Budgeted Revenues & Transfers-In	48,321,938	13,399,522	
NonBudgeted Revenues & Transfers-In	2,445,570	15,969	
Prior Year Revenues & Transfers-In Adjustments	(253,341)	471	
Direct Entries to Fund Balance	(37,337,018)		
Additions To Property Held in Trust			919,385
Total Additions	<u>13,177,149</u>	<u>13,415,962</u>	<u>919,385</u>
 REDUCTIONS			
Budgeted Expenditures & Transfers-Out	13,249,928	10,192,719	
NonBudgeted Expenditures & Transfers-Out		2,457,832	
Prior Year Expenditures & Transfers-Out Adjustments	18,034	4,768	
Reductions in Property Held in Trust			736,054
Total Reductions	<u>13,267,962</u>	<u>12,655,319</u>	<u>736,054</u>
 FUND BALANCE: June 30, 2001	\$ <u><u>(2,470,312)</u></u>	\$ <u><u>2,108,134</u></u>	\$ <u><u>0</u></u>
PROPERTY HELD IN TRUST: June 30, 2001			\$ <u><u>12,159,563</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 5,816,477	\$ 6,267,808	\$ 12,084,285
Taxes	46,299,629		46,299,629
Investment Earnings		28,610	28,610
Fines and Forfeits	139,459		139,459
Miscellaneous	232	21,954	22,186
Other Financing Sources	2,742,732		2,742,732
Federal		13,446,251	13,446,251
Total Revenues & Transfers-In	<u>54,998,529</u>	<u>19,764,623</u>	<u>74,763,152</u>
Less: Nonbudgeted Revenues & Transfers-In	2,743,620	22,008	2,765,628
Prior Year Revenues & Transfers-In Adjustments	<u>(166,880)</u>	<u>(1,250)</u>	<u>(168,130)</u>
Actual Budgeted Revenues & Transfers-In	52,421,789	19,743,865	72,165,654
Estimated Revenues & Transfers-In	47,876,808	13,749,563	61,626,371
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 4,544,981</u>	<u>\$ 5,994,302</u>	<u>\$ 10,539,283</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ 137,731	\$ 871,494	\$ 1,009,225
Taxes	4,324,291		4,324,291
Investment Earnings		(73,443)	(73,443)
Fines and Forfeits	84,459		84,459
Miscellaneous	(1,500)		(1,500)
Federal		5,196,251	5,196,251
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 4,544,981</u>	<u>\$ 5,994,302</u>	<u>\$ 10,539,283</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 6,792,377	\$ 6,177,259	\$ 12,969,636
Taxes	41,140,867	35,426	41,176,293
Investment Earnings		133,952	133,952
Fines and Forfeits	135,698		135,698
Miscellaneous	225	18,240	18,465
Other Financing Sources	2,445,000		2,445,000
Federal		7,051,085	7,051,085
Total Revenues & Transfers-In	<u>50,514,167</u>	<u>13,415,962</u>	<u>63,930,129</u>
Less: Nonbudgeted Revenues & Transfers-In	2,445,570	15,969	2,461,539
Prior Year Revenues & Transfers-In Adjustments	<u>(253,341)</u>	<u>471</u>	<u>(252,870)</u>
Actual Budgeted Revenues & Transfers-In	48,321,938	13,399,522	61,721,460
Estimated Revenues & Transfers-In	<u>40,490,809</u>	<u>14,143,012</u>	<u>54,633,821</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 7,831,129</u>	<u>\$ (743,490)</u>	<u>\$ 7,087,639</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ 2,372,227	\$ 1,114,247	\$ 3,486,474
Taxes	5,383,204	35,429	5,418,633
Investment Earnings		53,923	53,923
Fines and Forfeits	75,698		75,698
Miscellaneous		1,826	1,826
Federal		<u>(1,948,915)</u>	<u>(1,948,915)</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 7,831,129</u>	<u>\$ (743,490)</u>	<u>\$ 7,087,639</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	CENTRAL MANAGEMENT	FOREST RESERVE & FPGA TO COUNTIES	INSURANCE	LOCAL ASSISTANCE TO COUNTIES	SECURITIES	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 277,197		\$ 1,561,325		\$ 316,765	\$ 2,155,287
Employee Benefits	65,013		406,440		89,598	561,051
Total	342,210		1,967,765		406,363	2,716,338
Operating Expenses						
Other Services	32,642		301,682		29,288	363,612
Supplies & Materials	14,078		58,723		11,276	84,077
Communications	11,860		122,835		16,644	151,339
Travel	21,745		68,472		25,622	115,839
Rent	26,110		137,902		35,634	199,646
Repair & Maintenance	1,210		1,989		600	3,799
Other Expenses	8,219		37,487		6,521	52,227
Total	115,864		729,090		125,585	970,539
Local Assistance						
From Federal Sources		\$ 13,474,861				13,474,861
From Other Income Sources				\$ 14,214,278		14,214,278
Total		13,474,861		14,214,278		27,689,139
Transfers						
Accounting Entity Transfers			563,567		2,179,164	2,742,731
Total			563,567		2,179,164	2,742,731
Total Expenditures & Transfers-Out	\$ 458,074	\$ 13,474,861	\$ 3,260,422	\$ 14,214,278	\$ 2,711,112	\$ 34,118,747
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund				\$ 14,214,278	\$ 335,296	\$ 14,549,574
Special Revenue Fund	\$ 458,074	\$ 13,474,861	\$ 3,260,422		2,375,816	19,569,173
Total Expenditures & Transfers-Out	458,074	13,474,861	3,260,422	14,214,278	2,711,112	34,118,747
Less: Nonbudgeted Expenditures & Transfers-Out	6,394		564,077		2,190,138	2,760,609
Prior Year Expenditures & Transfers-Out Adjustments	123		13,777		750	14,650
Actual Budgeted Expenditures & Transfers-Out	451,557	13,474,861	2,682,568	14,214,278	520,224	31,343,488
Budget Authority	540,724	13,600,000	2,816,707	14,327,699	554,462	31,839,592
Unspent Budget Authority	\$ 89,167	\$ 125,139	\$ 134,139	\$ 113,421	\$ 34,238	\$ 496,104
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund				\$ 113,421	\$ 3,466	\$ 116,887
Special Revenue Fund	\$ 89,167	\$ 125,139	\$ 134,139		30,772	379,217
Unspent Budget Authority	\$ 89,167	\$ 125,139	\$ 134,139	\$ 113,421	\$ 34,238	\$ 496,104

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	CENTRAL MANAGEMENT	FOREST RESERVE & FPGA TO COUNTIES	INSURANCE	LOCAL ASSISTANCE TO COUNTIES	SECURITIES	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 284,099		\$ 1,483,392		\$ 308,073	\$ 2,075,564
Employee Benefits	66,700		388,735		88,331	543,766
Total	350,799		1,872,127		396,404	2,619,330
Operating Expenses						
Other Services	28,082		180,507		21,929	230,518
Supplies & Materials	23,028		80,063		15,138	118,229
Communications	15,054		114,993		17,133	147,180
Travel	11,659		75,598		22,201	109,458
Rent	14,151		73,334		17,369	104,854
Repair & Maintenance	1,900		2,226		662	4,788
Other Expenses	17,521		32,805		6,230	56,556
Total	111,395		559,526		100,662	771,583
Equipment & Intangible Assets						
Equipment			7,357			7,357
Total			7,357			7,357
Local Assistance						
From Federal Sources		\$ 7,185,037				7,185,037
From Other Income Sources				\$ 12,894,974		12,894,974
Total		7,185,037		12,894,974		20,080,011
Transfers						
Accounting Entity Transfers					2,445,000	2,445,000
Total					2,445,000	2,445,000
Total Expenditures & Transfers-Out	\$ 462,194	\$ 7,185,037	\$ 2,439,010	\$ 12,894,974	\$ 2,942,066	\$ 25,923,281
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 1,620		\$ 2,010	\$ 12,894,974	\$ 369,358	\$ 13,267,962
Special Revenue Fund	460,574	\$ 7,185,037	2,437,000		2,572,708	12,655,319
Total Expenditures & Transfers-Out	462,194	7,185,037	2,439,010	12,894,974	2,942,066	25,923,281
Less: Nonbudgeted Expenditures & Transfers-Out			3,458		2,454,374	2,457,832
Prior Year Expenditures & Transfers-Out Adjustments	1,527		6,850	10,152	4,273	22,802
Actual Budgeted Expenditures & Transfers-Out	460,667	7,185,037	2,428,702	12,884,822	483,419	23,442,647
Budget Authority	466,000	8,634,448	2,677,637	14,338,343	567,465	26,683,893
Unspent Budget Authority	\$ 5,333	\$ 1,449,411	\$ 248,935	\$ 1,453,521	\$ 84,046	\$ 3,241,246
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund				\$ 1,453,521	\$ 62,772	\$ 1,516,293
Special Revenue Fund	\$ 5,333	\$ 1,449,411	\$ 248,935		21,274	1,724,953
Unspent Budget Authority	\$ 5,333	\$ 1,449,411	\$ 248,935	\$ 1,453,521	\$ 84,046	\$ 3,241,246

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

State Auditor's Office

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Fund category (General and Special Revenue). In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for its Fiduciary Fund category (Agency). Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.

Notes to the Financial Schedules

State law requires the office to record its financial transactions on SABHRS in accordance with generally accepted accounting principles (GAAP). The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to GAAP by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Office accounts are organized in funds according to state law applicable at the time transactions were recorded. The office uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund. General Fund includes operations for securities and local assistance to counties.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Office Special Revenue Funds include Insurance and Security Division activity such as the securities and insurance examination fees, insurance industry continuing education program and securities portfolio registration. Also recorded in the office's Special Revenue Fund is the receipt and disbursement of Federal Forest Reserve funds to Montana counties.

Fiduciary Fund Category

Agency Funds - to account for resources held by the state in a purely custodial capacity. The office's agency fund accounts for cash and securities held in trust by the office, in accordance with section 33-2-111, MCA.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in a negative ending General Fund balance for each of the fiscal years ended June 30, 2001 and 2002.

Notes to the Financial Schedules

4. **Direct Entries to Fund
Balance**

Direct entries to fund balances include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The \$12,999,983 difference between years is a result of a different asset account used in each fiscal year.

Agency Response

MONTANA STATE AUDITOR

JOHN MORRISON
STATE AUDITOR



COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

December 2, 2002

Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
P.O. Box 201705
Helena, MT 59620-1705

RECEIVED
DEC 11 2002
LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

We have reviewed your financial compliance audit for the two fiscal years ending June 30, 2002. Our response to each audit recommendation follows:

Recommendation #1A:

Seek legislation to clarify Sections 33-2-708 and 17-2-121, MCA, to ensure revenues are recorded in the proper fund.

Agency Response:

We concur. Our office has been in contact with the Department of Administration and we have proposed changing 17-2-121, MCA, to comply with 33-2-708, MCA. The changes will be included in the State Auditor's Office housekeeping legislation and the Department of Administration has agreed to support this legislation.

Recommendation #1B:

Comply with state law requiring annual reserve liability valuation.

Agency Response:

We concur. The office is reviewing this process to determine if we can seek legislation to change the annual reserve liability requirement. If we cannot change this requirement, the office will implement procedures to annually value the reserve liabilities for all outstanding life insurance policies and annuity and endowment contracts of every life insurer doing business in this state. Currently there are two life insurance companies domiciled in Montana. One company is running out its business and the other company is looking at selling its book of life insurance business.

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Recommendation #2:

The office adjusts its internal database to ensure fees are deposited into the proper fund as required by law.

Agency Response:

We concur. The office is taking steps to review all revenue sources to ensure these revenues are being deposited into the proper fund required by law.

Recommendation #3:

We recommend the office properly record additions, reductions, and ending balances of security deposits on the accounting records.

Agency Response:

We concur. The office has taken steps to ensure that the proper year's ending balance will be used to calculate additions and reductions and ending balances of security deposits held in trust.

Recommendation #4:

We recommend the office record all revenues and expenditures related to the stamping fee established in Section 33-2-321(5), MCA, on the state's accounting records.

Agency Response:

We concur. The office will work with Montana Surplus Lines Stamping Office to implement procedures to record revenues and expenses related to stamping fees on an annual basis.

I would like to thank your staff for their time and effort during this audit. They were very professional and helpful addressing the issues that concerned my staff and pointing out areas that need improvement.

Sincerely,

A handwritten signature in black ink, appearing to read "John Morrison", with a long horizontal flourish extending to the right.

John Morrison
State Auditor

JM/jhn